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Monetary Policy

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July 31, 2014. Press release of the National Bank of Moldova

Within the meeting of July 31, 2014, the Council of Administration of the NBM adopted the following decisions by unanimous vote:

1. **to maintain the base rate applied on main short-term monetary policy operations at the current level of 3.5 percent annually;**

2. **to maintain the interest rates:**

— **on overnight loans at the current level of 6.5 percent annually;**

— **on overnight deposits at the current level of 0.5 percent annually;**

3. **to maintain the required reserves ratio from financial means attracted in MDL and foreign currency at the current level of 14.0 percent of the base.**

The Council of Administration of the NBM approved the Inflation Report no.3, 2014, which will be presented at the press conference of August 7, 2014.

The annual inflation rate in June reached the level of 5.0 percent, by 0.3 percentage points more compared to the previous month, mainly due to the contribution from food prices up to 2.4 percentage points. For 2 years and a half, the annual inflation rate is maintained within the range of ± 1.5 percentage points from 5.0 percent target.

The annual rate of core inflation amounted to 5.5 percent in June 2014, increasing by 0.2 percentage points compared to May 2014.

According to the information published by the NBS, in the first two months of the second quarter of 2014, the exports and industrial production increased by 10.4 and 1.3 percent, respectively, while the imports decreased by 1.5 percent.

The transport of goods increased by 7.5 percent in the second quarter of 2014 compared to the same period of the previous year.

In terms of consumer demand, the annual average real wage growth in April-May 2014 was 1.9 percent, by 1.6 percentage points lower than in the first quarter of 2014. The money transfers to individuals through the banks of the Republic of Moldova in the second quarter and first six months of 2014 increased by 15.8 and 7.8 percent respectively, compared to the same periods of 2013.

The balance of loans granted to the economy in the second quarter increased by 18.8 percent compared to

the end of June 2013, and the balance of deposits increased by 17.9 percent.

The average interest rates on loans and deposits in national currency recorded a downward trend. Thus, the annual average interest rate on loans portfolio in national currency decreased by 0.38 percentage points compared to the level recorded in March 2014, recording a level of 11.13 percent. The average interest rate on deposits in MDL decreased by 0.13 percentage points compared to the level recorded in March, reaching the level of 7.64 percent in June 2014.

The monetary policy continues to be affected by the complexity of risk balance, with a prevalence of disinflationary risks, mainly generated by the depreciation of the national currency of the main trading partners and by the diminution of domestic aggregate demand. The escalating geopolitical tension in the region may induce the disinflationary pressures.

The trade interdictions already imposed by the Russian Federation for some food products and other restrictions that may occur will increase the disinflationary pressures in short term, under an excess supply on domestic market.

In these circumstances, the Council of Administration of the NBM decided by unanimous vote within its meeting of July 31, 2014 to maintain the monetary policy interest rate at the level of 3.5 percent annually. It was also decided to maintain the required reserves ratio in MDL and in foreign currency at the current level of 14.0 percent of the base.

This decision aims at anchoring inflation expectations in the context of maintaining the inflation close to the target of 5.0 percent in the medium-term, with a possible deviation of ± 1.5 percentage points.

In the next eight quarters, the output gap will be negative. The development of the domestic economy below its potential level will continue to generate disinflationary pressures over the forecasting horizon. The National Bank of Moldova will maintain the stimulating monetary policy by the real effective exchange rate channel and the real interest rate channel, thus maintaining the annual inflation rate close to the target of 5.0 percent in the medium term.

The NBM new round of forecasting places the average annual inflation rate for 2014 and 2015 at the level of 4.7 percent and 3.5 percent, respectively. The NBM reduced the average annual inflation forecast for 2014 and 2015 by 0.5 percentage points and 0.8 percentage points respectively, compared to previous forecast published in May 2014. Based on the available data, there exists the risk of temporary fall of the annual inflation below the lower range of variation of ± 1.5 percentage points from the target of 5.0 percent in the first and second quarters of 2015.

A more detailed assessment of the macroeconomic situation, medium-term forecast of inflation and the potential risks and challenges that might be faced by the monetary policy in the next period will be presented in the Inflation Report no.3, 2014. According to the schedule, it will be published on August 7, 2014.

In order to support the proper functioning of the interbank money market, the NBM will continue to manage firmly the liquidity excess through sterilization operations, according to the announced schedule.

National Bank will continue to offer banks liquidity, according to the schedule announced for the years 2014-2015, through term REPO operations of 28 days, at a fixed rate equal to the base rate of the National Bank plus a margin of 0.25 points percentage.

NBM will further monitor and anticipate the domestic and international economic environment

developments, including household consumption dynamics, remittances, foreign exchange market indicators and changing foreign trade conditions, so that by the flexibility of operational framework specific for the inflation targeting strategy to ensure price stability in the medium term.

The next meeting of the Council of Administration of the NBM on monetary policy will take place on August 28, 2014, according to the announced schedule.

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